ASSIGNMENT

Course Code	**:**	**MMPF - 008**
Course Title	**:**	**Equity Derivatives**
Assignment Code	**:**	**MMPF - 008/TMA/JULY/2026**
Coverage	**:**	**All Blocks**

Note: Attempt all the questions and submit this assignment to the Coordinator of your study centre. Last date of submission for July 2026 Semester is 31st October 2026 and for January 2027 Semester is 30th April 2027.

1. Explain different financial instruments available in Indian Capital Market. Compare equity shares, preference shares, and debentures.
2. Write short notes on any two
    a) Futures Contract
    b) Option Contract
    c) SWAPs
3. Give solution of these:
    a) An investor buys one lot of XYZ June Futures at ₹1,450. The lot size is 300 shares. After one week, the futures price rises to ₹1,500 and the investor squares off his position. How much profit he has earned.
    b) An investor takes a long position in ABC Futures at ₹2,100. Lot size is 250 shares. Before expiry, the futures price falls to ₹2,040 and the investor closes the position. How much profit he has earned?
4. What is derivatives market? Explain its major participants such as hedgers, speculators, and arbitrageurs.
5. Compare Over-the-Counter (OTC) derivatives and Exchange-Traded Derivatives (ETDs) with respect to standardization, transparency, liquidity, and risk.

1. Explain different financial instruments available in Indian Capital Market. Compare equity shares, preference shares, and debentures.

Answer

The Indian capital market connects organisations that need long-term funds with investors who are willing to provide savings for a return. It includes the primary market, where new securities are issued, and the secondary market, where already issued securities are bought and sold. The instruments available differ in ownership rights, certainty of return, maturity, risk and marketability. An investor therefore chooses among them according to income needs, risk-bearing capacity, investment horizon and expectations about the issuer.

Major financial instruments in the capital market

Equity shares represent ownership in a company. An equity shareholder contributes permanent risk capital and normally receives voting rights. The return is mainly in the form of dividends and capital appreciation. Dividend is not fixed and depends on profits, dividend policy and the decision of the board and shareholders. Equity has no normal maturity date, so the investor exits by selling the shares in the secondary market. Because equity holders are residual claimants, they receive assets only after creditors and preference shareholders in liquidation. The possible return can be high, but the risk is also relatively high.

Preference shares are also part of share capital, but they carry preferential rights over equity shares. Preference shareholders generally receive dividend at a stated rate or on stated terms and have priority over equity shareholders for repayment of capital when the company is wound up. They ordinarily do not enjoy the same voting rights as equity shareholders, except in situations provided by law. Preference shares may be cumulative or non-cumulative, redeemable, participating, non-participating or convertible, depending on the terms of issue. They are useful to investors who prefer a more stable income claim than ordinary equity but are willing to accept less control and usually lower growth participation.

Debentures are debt instruments issued by companies to borrow funds. The debenture holder is a creditor rather than an owner. Interest is normally contractual and payable according to the terms of issue, subject to the issuer's ability and legal obligations. Debentures usually have a specified redemption or maturity arrangement. They may be secured or unsecured, convertible or non-convertible, and may carry fixed or floating interest. In liquidation, debenture holders rank